



COUNTY OF SAN LUIS OBISPO

Office of the Auditor-Controller

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To: Board of Supervisors

From: James P. Erb, Auditor-Controller

Date: July 9, 2013

Subject: Combining the Offices of the Auditor-Controller with the Treasurer-Tax Collector-Public Administrator to form a new consolidated department

On May 14, 2013, your Board directed the County Administrative Office to make preparations, including the drafting of ordinances to consolidate the offices of the Auditor-Controller (AC) and Treasurer-Tax Collector-Public Administrator (TTCPA). Additionally, your Board directed staff to return with more information regarding plans to retain the strengths of each department upon consolidation. Specifically, your Board requested that staff address four areas:

- Preservation of the organizational culture of each department, and each departments' strong focus on providing a high level of customer service
- Consideration of how to maintain appropriate checks and balances, and internal control
- Development of a clear staffing plan
- Development of an implementation plan for IT projects and a clear vision of how to integrate the two departments' systems

AC and TTCPA management have worked together to prepare this document which addresses the concerns mentioned above. We have identified a plan based on our familiarity with the two offices today. We all agree that rather than viewing the effort as a consolidation of the AC with the TTCPA it should be viewed as designing a new department and treating all divisions with equal importance.

1. Preservation of Organizational Culture and Levels of Service

In researching other counties that have consolidated these offices, two trends were apparent. Some counties consolidated simply for prospective savings, while others consolidated in an effort to remedy mismanagement and inefficiencies in one or both offices. San Luis Obispo County is in a better position than most other counties in that the AC and the TTCPA already function at a very high level. Based on this advantage, consolidation will occur with a solid foundation and without the pressing organizational needs faced by other counties. However, to be worthwhile, any consolidation must preserve the successful aspects of each of these offices and the service levels that they provide. To provide the same level of service, employee morale will be a key factor to monitor during a merger.

The TTCPA has expertise as a public-facing department, collecting secured and unsecured taxes as well as licensing businesses in the County. The mission of the TTCPA is to provide quality service and this is furthered by a commitment to being responsive to the needs of the public. Additionally, the TTCPA has had success in innovating through automation in order to provide additional services to the public. The TTCPA created the award-winning Taxes on the Web system, making the department the first in the State to provide public access to tax information on the internet. Combining the technical staff from the AC with that of the TTCPA will likely lead to further innovations.

The AC has expertise in serving county departments and other agencies as well as interacting with the public. Additionally, the AC is the County's "watchdog" over finances and is the creator of county-wide policies regarding internal controls and the handling of funds. The AC has promoted transparency in county operations and serves as an unbiased check on county financial operations and reporting. The AC implemented and now maintains (with the help of the Information Technology Division of the General Services Agency) the Countywide Financial and Payroll system which has become the backbone of the County's business processes.

Both departments are known for their responsiveness, accuracy, conservative policies, and unbiased reporting. Departments, citizens, and outside agencies rely on information presented by the AC and TTCPA.

In examining these cultures and traditions, staff feels that the best approach is to focus effort on creating a new department, with a new departmental culture, incorporating the best aspects of the AC and the TTCPA. In order to foster unity and maintain positive morale, it is important that management and staff focus on operating as one

department, rather than as two departments. By learning from the expertise of each department, the departmental cultures of the AC and the TTCPA can integrate into the creation of a new department. This will be accomplished through a slow and methodical transition whereby a clear understanding of each section of the department is obtained before any change is made. Getting out in front of the change will help staff adapt to the new management or a transition of job duties. Job duties assigned to individual desks in some sections will not change while others may shift. We plan to use the expertise of an organizational change manager, who has previously worked with the County to ensure that we are starting out in the right direction and following an established guideline.

The AC's staff is experienced in change management as they brought about the transition from a 27 year old mainframe accounting system to a modern enterprise financial system that replaced many manual business processes. The change was handled by communicating with the County staff on a regular basis, providing training, and having a system in place to follow up on employee progress. While this change is not as big, the same philosophies will apply.

Through discussions with Sonoma County, we learned of the importance of getting staff involved in creating the culture of the new department. To facilitate this, we will form committees staffed by a variety of personnel. Committees will address things such as public service requirements, department mission statement, staff training, internal controls, office configuration, alternative work schedules, parking assignments and rotations, dress code, special events recognition, office integration, letterhead, e-mail groups, staff participation on various related committees, website design, providing proper notification to outside agencies regarding changes, and other issues as they arise.

2. Maintaining Checks and Balances and Internal Controls

Due to the financial nature of functions performed by both the AC and TTCPA, proper checks and balances and internal controls have always been central to operations within and between the separate offices. In a combined department, it will become even more crucial to continue to focus on these checks and balances, and to create new controls for duties for which internal controls are currently maintained through physical separation. The three key strategies that will be used to ensure strong controls and separation of duties are: 1) Organizational structure, 2) Financial system controls and security features, and 3) Independent outside auditor involvement. Each is discussed in more detail below.

Organizational Structure

The separation of duties is a fundamental control in financial operations, where no single individual may complete an entire process from beginning to end, preventing the likelihood of fraud and error. Duties that are currently separated by assignment to different departments will continue to be separated in the new organizational structure. To combine them would create an internal control weakness. Staff will not be temporarily reassigned or serve as backup for incompatible functions across divisions. AC and TTCPA duties will only be combined where such separation is not required for control purposes. These duties may include general administrative support, HR, payroll, and automation.

In designing the combined organizational structure, AC and TTCPA continue to review tasks and duties of the separate departments to identify those duties where good accounting practices dictate they remain separate. These types of duties will continue to be assigned to separate employees reporting to different supervisors. Some examples include, but are not limited to:

- Responsibility for purchases and maturities of Treasury Pool investments and responsibility for reconciling the Treasury Pool to the financial system. Responsibility for these tasks currently resides in separate departments, however even with physical separation, staff from both departments work together to assist when questions arise in either area. Proper separation of these duties would continue in a combined department with separate staff performing the functions and reporting to different supervisors.
- Many duties related to Property Tax administration require separation. For example, staff responsible for allocating taxes to the taxing entities should not be responsible for collecting taxes. This separation, currently accomplished due to the existence of separate AC and TTCPA departments, will continue in a combined department by staff responsible for property tax allocation reporting to a different supervisor than staff responsible for tax collection duties. It is important that staff with property tax allocation duties are not reassigned (even temporarily during peak seasons) to support tax collection duties. Assistance during peak periods can still be provided in a combined department (without compromising internal controls) by assigning staff from divisions without property tax duties.

Financial system controls and security features

A key capability of current financial software, such as the County's SAP system related to the enforcement of internal controls is "role-based" user security. With role-based security, authorizations for appropriate tasks are bundled into job roles designed by the County. Staff assigned a role can only access tasks appropriate for their job and the system stops them from performing other conflicting tasks. These system access controls reinforce separations built into individual staff assignments and the organizational reporting structure. This capability is currently used by the AC to enforce internal controls across County departments, as well as internally within the AC and TTCPA offices. This level of automated access control did not exist in financial systems of the past and provides a valuable tool for enforcing separation previously accomplished by placing duties in different departments.

AC and TTCPA staff will conduct a detailed review of current security role assignments in the separate departments and compare that to duties assigned in the proposed organizational chart. Based on this review, in-house SAP security staff will work with AC and TTCPA management to reassign roles and design new roles as appropriate for the new department structure. Further, the SAP security staff will report to a Division Manager who has no responsibility for accounting, tax collection, cash management, or cash handling.

Independent Auditor Involvement

While proper checks and balances can be maintained for most duties through organizational structure design and security authorizations, audits of the County Treasury as prescribed by Government Code, should be performed by a party completely independent of the combined department. The audits of the Treasury consist of unannounced counts of cash in the Treasurer's custody and confirmations of Treasury investments. The annual review that investment types and percentages comply with the Treasurer's Investment Policy should also be performed by a party completely independent of the combined department.

The CPA firm that conducts the County's annual financial statement audit is hired by the Board of Supervisors and reports directly to them. Having this firm conduct audits of the Treasury and compliance with the Treasurer's Investment Policy provides for a greater level of independence over Treasury audits than is currently provided with internal county staff (AC) conducting the audits.

It should be noted that the County's Treasury Investment Policy, as well as the County investment portfolio's compliance with that policy, are currently reviewed by the County Treasury Oversight Committee (CTOC), which will continue upon consolidation. Of the

CTOC's five members, three are independent of the AC and TTCPA. The independent auditors have also been involved in discussions about the proposed consolidation and have provided feedback on design drafts of our organizational structure. As we develop the final organizational chart we will incorporate their guidance, and will request their written opinion on plans before implementing initial staff reassignments. The independent auditors will continue to assess changes to the organizational structure as part of their regular assessments of internal control conducted in connection with the annual financial statement audit.

Internal controls, checks and balances, and proper segregation of duties have long been paramount to fulfilling the responsibilities that the public entrusts in the AC and TTCPA offices. AC and TTCPA management are committed to maintaining these financial safeguards and working together to institute new controls to substitute for separations that now exist in the distinct departments. By separating duties and supervision in the organizational structure, utilizing authorization capabilities in the financial system, and providing increased oversight by our independent auditors, those safeguards will be imbedded in a new combined department.

3. Development of a Staffing Plan

A staffing plan consists of five major components: understanding job duties, developing staffing estimates, staff assignments, staff training and cross training, and tracking the results. We plan to use the services of an outside organizational change consultant to help design a timeline and specific outcomes to track the results of the merged staff. Maintaining high morale through communication and staff involvement is the best way to achieve staff “buy in” and will be one of the most important elements in a departmental merger.

Understand Job Duties

This will be one of the main efforts for the three Division Managers and Assistant ACTTCCA in order to properly supervise, assign duties, understand adequate separation of duties, rewrite policies, and rewrite job specifications (if needed). The Division Managers will need to fully understand the new areas that have been placed under their supervision. This can only be accomplished by reviewing current policies, observing and reviewing current work tasks, and one on one communication with staff.

Staffing Estimates

The AC and Acting TTCPA worked together to design an organizational chart based on current operations and divisions that may be combined. Initially, a department head and assistant department head position will be eliminated. Staff has also identified

positions that over time may be eliminated through attrition and only after a viable shift of the work is identified. We believe we have a good understanding of the staffing estimates as the departmental responsibilities will not change with a merger. A finalized organizational chart will be one of the first items established upon consolidation.

Staff Assignments

Initially, most staff will continue to perform the same job duties they are currently assigned. Upper managers will take on the responsibility of understanding the requirements of the new divisions. Once a firm understanding of the various responsibilities is established we will start planning the integration of some of the tasks and the related seating arrangements. There may be opportunity for staff to apply for new positions and assume more responsibility in a merged office. Both offices are financial in nature, making the skill sets transferrable between multiple positions in a merged office. We believe more opportunity will present itself for staff desiring a change in work assignments or career development.

One of our main goals will be to work with the Human Resources department to identify opportunities to create more general job descriptions for some positions. Currently, there are job descriptions in the departments that are very similar to one another. The creation of broader job specifications to consolidate nearly identical positions will create more opportunities for staff and a more flexible environment for staffing assignments would result.

Staff Training and Cross Training

Training and cross training are a good practices in any department. After the divisions are established and combinations of responsibilities are made, the task of training and cross training will be the next step. Division Managers will work with Principal Analysts and supervisors to identify staff that can assist with training. Risk areas will be identified and cross training plans put into place. Each division within the merged office will develop a training plan.

Tracking Staffing results

Each Division Manager will be responsible for tracking the staff training, cross training and morale of the divisions they manage. They will work closely with staff supervisors to ensure that designated project plans are being followed. Timelines and strategies developed internally, or with the assistance of a third party organizational change consultant will be followed, altered if necessary, and reported upon in management staff meetings. In addition, the ACTTCPA will check in with the line staff in various divisions. Both the AC and TTCPA have always had an open door policy where staff in any

position is welcome to come discuss problems, ideas, or concerns. Managers and supervisors are also encouraged to provide the same approach.

4. Integrating each department's Automation projects

Overview

In the automation area, both offices have dedicated Automation staff, but each maintains a different focus. As the Chief Accounting Office for the County, the AC maintains an enterprise-wide focus for the financial, HR/payroll, and budgetary systems support that benefit all County departments. In addition, the AC is one of three user departments of the County's Property Tax system, as is the TTCPA. Over the years, the TTCPA has focused on specialty system enhancements within their department that enable staff to be more efficient and offer higher quality service to their customers. Each office has a list of Automation projects currently in progress and a list of planned projects that further the county-wide or department-specific goals, respectively, and each office will continue working through those project lists (lists are included at the end of this document). We do not anticipate any significant changes in automation goals.

Auditor-Controller's Office

As of June, 2013, the AC is involved in five major enterprise system projects: cSupport (help desk software) system replacement, Property Tax System Modernization (rehosting from mainframe to Windows server), Groupware (email) replacement, Budget Prep system replacement, and various SAP enhancements to the financial and/or HR/payroll modules. As an enterprise system, SAP can also be impacted when departmental systems change, so the SAP support team is involved with a piece of the Property Tax System Modernization, the District Attorney's Case Management System (CMS) system replacement, and Probation's case system replacement in the coming year. The SAP projects range from small (les than 40 hr) projects, to various legal mandate changes, to significant departmental system interfaces/integrations, and significant system upgrades. Currently there are 259 SAP project ("change") requests logged on the list with new changes requested each week.

The AC has a staff of nine dedicated to systems support. The support group is divided as follows: four staff focus on SAP financial support (including financial-related security, end user training, and Integrated Document Management (IDM) imaging support); four staff focus on SAP HR/payroll support (including HR/payroll-related security and IDM support); and one person performs desktop PC support and represents the office on the Groupware replacement project and various standing technology committees. For specialty system replacement projects, a subject matter expert from the specific impacted division of the office also participates. Currently the Property Tax division has

one FTE assigned to the Property Tax System Modernization project, and when the Budget Prep system project moves past the planning stages, the Budget/Cost division of the office will likely contribute .5 FTE to that project.

Treasurer-Tax Collector-Public Administrator's Office

The TTCPA is involved in two of the same major enterprise system projects: the Property Tax System Modernization and the Groupware replacement. Once complete, the Property Tax Modernization project will enable staff to pursue new internal enhancements down the road. In addition to the two enterprise system projects, the department is currently working on five projects that will continue to improve customer service and enhance office efficiency. The department has plans for approximately twenty additional applications and/or enhancements aimed at continuous improvements.

The TTCPA has a staff of three dedicated to their departmental automation needs. Depending on the needs of the project, one or more of the staff is assigned to a given project. In addition, the department managers work closely with the automation team as subject matter experts throughout the project to ensure the final product meets the needs of staff and customers. General Personal Computer (PC)/application support and representation on various standing technology committees is divided among the team as well.

Integration of Tasks and Technologies

Systems support often requires familiarity with the applications being supported, and staff in a combined office would be expected to continue supporting the systems they know and work with today. The SAP support staff would remain dedicated to SAP support. Tasks common to both offices, such as desktop PC support and other common application support, could initially be divided among staff that currently has these responsibilities.

Each office has the potential to benefit from the technology strengths of the other. The property tax division in the AC will likely see an immediate benefit from the shared use of some user-friendly, custom tax reporting applications that the TTCPA has developed. The custom application concepts can also be applied to needs within the AC as future projects to improve staff efficiency. The TTCPA could benefit from the AC's knowledge and usage of SAP and cSupport/iSupport. The Treasury division in particular has expressed interest in moving more functions into SAP; an effort that would be facilitated by a combined office. Since the TTCPA has numerous technology projects planned (see detailed list below), they might also benefit from understanding how the AC utilizes the cSupport/iSupport help desk tool to manage the pending project list.

Summary

We believe that preserving the successful cultures of these departments in order to maintain service levels is an important aspect of a successful merger. In doing so, trust in the combined department, by the public and by other agencies, will be maintained. As detailed plans for the consolidation are developed, maintaining the standards for which these departments are known will be paramount.

Although the duties of the AC and TCCPA staff are not identical, they each share expertise in maintaining effective internal controls and separation of duties. Three members of the current AC office are Certified Internal Control Auditors. By applying the concepts of separating duties and supervision, utilizing the security features in our enterprise financial systems, relying on independent auditors, and a continuing to evaluate tasks and assignments we can provide the internal controls needed to maintain adequate checks and balances.

The staffing plan will be the most dynamic part of the merger, and potentially the most exciting. As we gain a better understanding of the duties and responsibilities required and the expertise of the staff, we can make sure staff is assigned in the most effective positions. This may involve new work opportunities for some and chances for promotion for those willing to take on the extra work.

Staff "buy in" to the consolidation plan will be essential to the success of the new department. Additionally, staff involvement will be crucial in discovering opportunities to improve processes and efficiencies.

Integration of our automation tasks is complicated and will depend on the expertise and commitment of staff. The Division Manager with automation responsibilities will now have a number of new projects to oversee. There will be no reduction to programming or support staff and it is critical that many of the current staff will stay engaged in their current projects. Over time as the integration and application of automation projects evolve, new priorities will be set and collaborative efforts from all staff will be required. Our work load in the automation area will continue to increase. The broader the user base, along with other factors, the higher priority the project will receive.

Treasurer-Tax Collector-Public Administrator’s Office – Technology Projects

In Progress	
Project	Description
<ul style="list-style-type: none"> • Property Tax Modernization Project <p><u>Additional - During Property Tax Modernization Project</u></p> <ul style="list-style-type: none"> • CORTAC Tape Processing (TC63) • CORTAC Bill Request (TC64) • CORTAC Rejections (TC74) • Other Tax Collector Applications that rely on mainframe data <p><u>Additional - After Property Tax Modernization Project</u></p> <ul style="list-style-type: none"> • Penalty Cancelation • Payment Removal • Delinquent Collections • Power of Sale Publications & List Download (TR40) • Tax Bill Redesign/Printing 	<p>The CORTAC processes are applications that process tax payments from third party agencies paying for mortgage companies. These applications and others rely on mainframe data or processes to work. All such applications will need to be tested to verify that they work with the re-hosted system during the project.</p> <p>After the project has been completed, these are processes that could be improved either within the system or externally with a new application.</p>
<ul style="list-style-type: none"> • External Taxes on the Web – enhancements • Internal Taxes on the Web Rewrite and Enhancements • Electronic Payment Confirmation Enhancements 	<p>Both internal and external Taxes on the Web versions are being enhanced to improve the customer’s experience and increase the information available.</p>
<ul style="list-style-type: none"> • Batch Secured/Supplemental Payment Keying 	<p>New, more efficient payment processing system that will replace existing payment processing modules for secured and supplemental payments.</p>
<ul style="list-style-type: none"> • Tax Status/Installment Plan/May Reminder Letters 	<p>Enhancements to processes and wording.</p>
<ul style="list-style-type: none"> • Return Mail Barcode Scanning 	<p>Enhancement to existing system to improve efficiency and accuracy.</p>
<ul style="list-style-type: none"> • Groupware (Email) Replacement Project 	<p>County Enterprise Project</p>

Planned	
Project	Description
<ul style="list-style-type: none"> • External Taxes on the Web Rewrite • Taxes on the Web History 	Full external Taxes on the Web rewrite to improve the customer's experience and understanding.
<ul style="list-style-type: none"> • Secure Link Tax Payment • Quick Pay • Paperless Customers- Enhancements 	Enhancements to Property Tax Management System to help the customer access their account and make payments.
<ul style="list-style-type: none"> • System Letters/Return Remits • Delinquent Collection System Letters • Manual Return Remits • Return Check Letters 	Full rewrite to merge existing automatic system letters into one program to make taxpayer correspondence more efficient.
<ul style="list-style-type: none"> • Redemption Installment Plan System 	Replacement of the existing process in the mainframe.
<ul style="list-style-type: none"> • Fiche Viewer (TC57/TC21) • Microfiche Download (TC57) 	Improvement of the existing system to store and review specific prior year tax information.
<ul style="list-style-type: none"> • Prior Unsecured/Redemption Payment Keying • Payment Batch Viewer (TC59) 	New payment processing module that will be added to the secured and supplemental payment system for prior unsecured and redemption payments.
<ul style="list-style-type: none"> • Front Counter Point of Sale System 	New systems for front counter processing of payments.
<ul style="list-style-type: none"> • Redemption Action Plan/Power of Sale/Tax Sale System 	New system that will merge the existing programs and processes into one.

Auditor-Controller's Office – Technology Projects

In Progress	
Project	Description
<ul style="list-style-type: none"> • Property Tax System Modernization (PTSM) Project 	Work with the contracted vendor to modernize the Property Tax System by moving it from the mainframe onto an Intel/Windows-based platform and providing access to data through a Microsoft SQL Server database. Rewrite and test twelve property tax interfaces between the new property tax system platform and SAP. These interfaces cover new vendor creation, vendor payments, multiple types of current and delinquent property tax distributions, Teeter buyout distributions, and issued check information. Tentative go-live for

In Progress	
Project	Description
	modernized system is early 2015.
<ul style="list-style-type: none"> Groupware (email) Replacement Project 	Migration of the County's Groupware-Email system from IBM Lotus Notes/Domino to Microsoft Office 365. All users will be impacted by this change in a primary business tool. Tentative go-live for Office 365 is mid-2014.
<ul style="list-style-type: none"> Help Desk Software Replacement Project 	Replace the existing cSupport enterprise "help desk" software with the newer iSupport product to enter, monitor, update, and track customer technology-related incidents and service requests.
<ul style="list-style-type: none"> Budget Prep Replacement Project 	Replace Budget Preparation and ancillary systems which are written in an outdated program language with a modern, integrated software product. Tentative go-live is Fall 2015.
<ul style="list-style-type: none"> Check-writing Hardware & Software Replacement with SAP Integration 	Replace the outdated hardware and software used to print County-issued checks for vendor payments, welfare, and payroll with new hardware and a software product that will be supported for future operating system upgrades. Tentative go-live is Sept 2013.
<ul style="list-style-type: none"> SAP Business Intelligence Data Warehouse 	Development of a reporting solution to addresses the need for County departments to develop complex and ad-hoc reporting out of the SAP system through the use of a data warehouse collection, reporting, and analysis tool. Initial rollout and departmental training scheduled for Summer 2013 but the development of new data requests (new "data cubes") will be an ongoing task.
<ul style="list-style-type: none"> SAP Actual Labor Costs in Cost Accounting Module of SAP 	Development of a custom solution to post actual (instead of estimated) labor costs by cost object in the cost accounting module of the system. This will offer significant benefits for grant-driven departments who rely on cost accounting.
<ul style="list-style-type: none"> SAP Interface with District Attorney's (DA) Case Management System 	Develop interface between the DA's new case management system and SAP using new "web service" technology for vendor

In Progress	
Project	Description
	creation and vendor payment requests. Tentative go-live in Fall 2013.
<ul style="list-style-type: none"> • Pension Trust System Replacement 	Migrate the Pension Trust System from its current outdated software language into SAP and modify the deferred comp interface file.
<ul style="list-style-type: none"> • Annual SAP System Patching 	Apply and test all SAP system patches that have been released since 2012 annual patch event.

Planned	
Project	Description
<ul style="list-style-type: none"> • SAP Interface with Probation's Case Management System 	Develop interface between Probation's new case management system and SAP for vendor creation and vendor payment requests.
<ul style="list-style-type: none"> • Public Works GIS – SAP Interface/ Integration 	Work with the Public Works department to refine their business needs and eventually implement for a GIS – SAP integration point. Project and scope yet to be determined.
<ul style="list-style-type: none"> • SAP Solution Manager Upgrade 	Upgrade the outdated "Solution Manager" component of SAP to the current supported release. Solution Manager is the centralized dashboard for managing the entire SAP development landscape (test systems, test management, change control, etc.) and for communication with SAP itself.
<ul style="list-style-type: none"> • SAP Technical Upgrade 	Every five years the SAP hardware and software requires an upgrade to stay current. SAP is now releasing "Enhancement Packs" that take the place of a whole-system upgrade.

Planned	
Project	Description
<ul style="list-style-type: none"> Ongoing SAP Changes 	<p>There are an additional 250+ change requests pending for modifications to our SAP system. These range from small changes (add a field to an existing report), to medium (create a new type of vendor and related security access), to large (create a new interface to another system). The Enterprise Financial System support team is constantly working on these tasks, but new requests come in every week.</p>